



Coordination of Benefits (COB)

John C. Garner, CEBS, CLU, CFCI, CMC

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Agenda

- Review Basics
 - Purpose of COB
 - Calculation Examples
 - Order of Benefit Determination
 - Allowable Expenses
- Address Troublesome Issues
- Latest Developments



Purpose of COB

- Over Insurance
- History
 - Non-Duplication
 - 1962: First COB Rules (Industry Associations)
 - 1970: Model Regulations (NAIC)



Example - Without COB

COMPANY A

Eligible Expenses	\$2,400
Less Deductible	<u>\$ 100</u>
	\$2,300
x 80% Coinsurance	<u>.80</u>
Benefit Payable	<u><u>\$1,840</u></u>

COMPANY B

Eligible Expenses	\$2,400
Less Deductible	<u>\$ 100</u>
	\$2,300
x 75% Coinsurance	.75
Benefit Payable	<u>\$1,725</u>
Total Paid	<u><u>\$3,565</u></u>



Example - Standard COB

COMPANY A

Eligible Expenses	\$2,400
Less Deductible	<u>\$ 100</u>
	\$2,300
x 80% Coinsurance	<u>.80</u>
Benefit Payable	<u><u>\$1,840</u></u>

COMPANY B

Eligible Expenses	\$2,400
Less Company A's Benefit	<u>\$1,840</u>
Benefit Payable	<u><u>\$ 560</u></u>



Example - Carve Out

COMPANY A

Eligible Expenses	\$2,400
Less Deductible	<u>\$ 100</u>
	\$2,300
x 80% Coinsurance	<u>.80</u>
Benefit Payable	<u><u>\$1,840</u></u>

COMPANY B

Eligible Expenses	\$2,400
Less Deductible	<u>\$ 100</u>
	\$2,300
x 75% Coinsurance	<u>.75</u>
Normal Liability	<u><u>\$1,725</u></u>

Since \$1,840 > \$1,725, no benefits are due.



Example

	Standard COB	Carve Out	Exclusion
Total Charge	\$1,000	\$1,000	\$1,000
Allowable Expense	1,000	1,000	1,000
Primary Plan Pays	800	800	800
Normal Liability of Secondary Plan	800	800	800
Secondary Plan Pays	200	0	160
Benefit Reserve Addition	600	N/A	N/A



States That Permit Carve Out

- Minnesota
- New York
- Tennessee



COB Does Not Include

- Individual or Family Policies (Old)
- Hospital Indemnity Benefits
- School Accident Coverage
- Long-Term Care Insurance
- Medicare Supplement Policies
- Medicaid
- Government Plans in Excess of Private Plans



COB Worksheet with Savings

1. Current Allowable Expenses \$ _____
2. Prior Allowable Expenses for This Benefit Period \$ _____
3. Total Allowable Expenses This Benefit Period
(Line 1 plus Line 2) \$ _____
4. Other Insurance Benefits for Current Allowable Expenses \$ _____
5. Other Insurance Benefits for Prior Allowable Expenses \$ _____
6. Total Other Insurance Benefits This Benefit Period
(Line 4 plus Line 5) \$ _____
7. Unpaid Allowable Expenses (Line 3 minus Line 6) \$ _____



COB Worksheet – (Continued)

- | | |
|---|---------|
| 8. Unadjusted Benefits for Current Expenses | \$_____ |
| 9. Unadjusted Benefits for Prior Expenses | \$_____ |
| 10. Total Unadjusted Benefits This Benefit Period
(Line 8 plus Line 9) | \$_____ |
| 11. Actual Benefit for ALL Expenses This Benefit Period
(Line 7 or Line 10, Whichever is less) | \$_____ |
| 12. Benefits Previously Paid This Benefit Period | \$_____ |
| 13. Actual Benefits Now Payable (Line 11 minus Line 12) | \$_____ |
| 14. Benefit Credit for the Remainder of This Benefit Period
(Line 10 minus Line 11) | \$_____ |



Strange (But Accurate) Example

2 Plans With \$200 Deductibles & 80% Benefit
\$200 Allowable
Both Plans Pay Zero

Next Claim: 250 Allowable
Both Plans Pay \$200*

*This Uses COB Savings, Which Does Not
Apply Under the Latest NAIC Rules



Sequential System

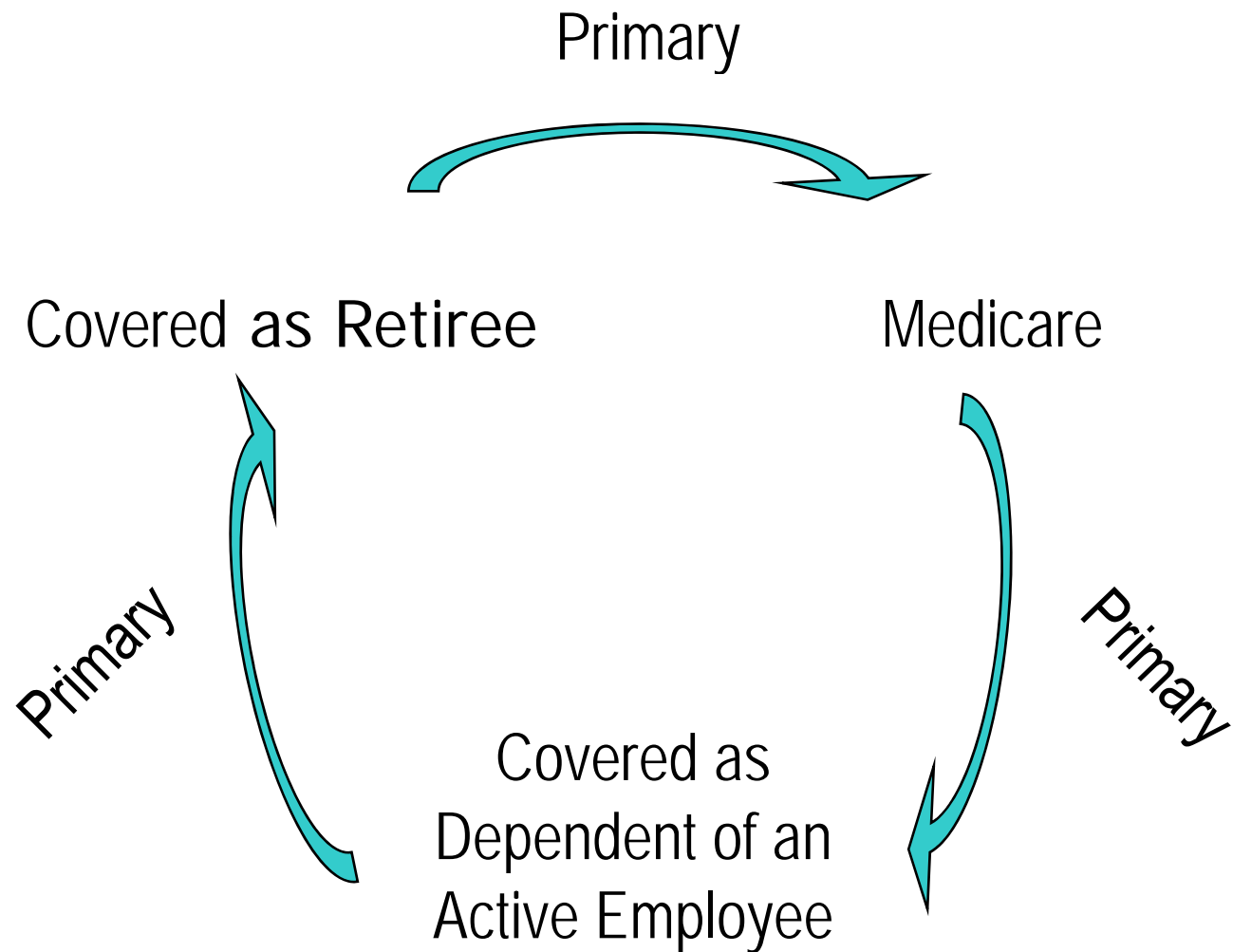
Use the 1st Rule that Applies.



Order of Benefit Determination

- Plan Without COB
- Non-Dependent or Dependent
 - Watch Out for Renegade Dependents
 - Medicare

The Vicious Cycle





Order of Benefit Determination

- Child Covered Under More Than One Plan
 - Birthday Rule
 - Joint Custody
 - Same Birthday
 - Court Order (First Rule Under new Model Language)



Order of Benefit Determination

- Child of Separated or Divorced Parents
 - Custodial Parent
 - Spouse of Custodial Parent
 - Noncustodial Parent
 - Spouse of Noncustodial Parent



Order of Benefit Determination

- Active/Inactive (Laid Off/Retired)
- Continuation Coverage
- Longer/Shorter Length of Coverage
- Shared Equally



Phantom Plans

- COB Not Allowed Under NAIC Rules
- Exception:
 - Retiree Plans and Medicare



“Always Secondary” Plans

- Prohibited by NAIC Rules
- Complying Plan Obligated to Advance \$
- Complying Plan Subrogated Against Non-Complying Plan
- MrGurl v. Trucking Employees Welfare Fund
 - 3rd Circuit
 - Two ERISA Plan With Conflicting Provisions
 - Use NAIC Rules



Medicare Secondary Rules

- Medicare Secondary To:
 - Workers' Compensation
 - Liability Insurance
 - Automobile Insurance
 - Group Health Plans During the First 30 Months of Entitlement to Medicare Due to ESRD
 - GHPs That Cover Employees Age 65 and Over (20 + Employees)
 - LGHPs That Cover Disabled Individuals Due To Current Employment Status (100 + Employees)



Allowable Expenses

“Allowable expense,” except as set forth below or where a statute requires a different definition means any health care expense, including coinsurance or copayments and without reduction for any applicable deductible, that is covered in full or in part by any of the plans covering the person.



Allowable Expenses

If a person is covered by two (2) or more plans that compute their benefit payments on the basis of U&C fees or relative value schedule reimbursement methodology, any amount charged by the provider in excess of the highest reimbursement amount for a specified benefit is not an allowable expense.



TRICARE Supplement Plans

- March 28, 2008 Proposed Regulations
- Department of Defense
- Employers Cannot Offer Incentives to Drop GHP
- Cafeteria Plans and Opt-Out Bonuses Exempt
 - If Offered to all Employees
 - Cannot Take TRICARE into Account



Medicaid and Preauthorization

- March 21, 2008 Advisory Opinion
- Department of Labor
- ERISA Doesn't Preempt Medicaid Reimbursement Laws
- Plan Can't Use Failure to Preauthorize as Excuse
- OK to Deny if
 - Not a Covered Service
 - Preauth Denied Before Medicaid Sought



New Reporting Requirement

- Effective January 1, 2009
- HHS to Issue Regulations
- Health Plans and TPAs Disclose:
 - Identity of Medicare Primary Benefit
 - Information Needed to Coordinate
 - Estimate of Amount Plan Must pay



Erie County Case

- March 24, 2008
- US Supreme Court Declined to Review 3rd Circuit Decision
- Upheld EEOC's Authority to Issue Regulations
- Plans Can Coordinate With Medicare Without Violating ADEA



Part D Proposed Regulations

- May 25, 2007 Centers for Medicare & Medicaid Services
- “Given the volume of drug claims that pharmacies would have to re-adjudicate as a result of incorrect Part D enrollment information available at the point-of-sale, re-adjudication would have imposed a significant administrative and financial burden on pharmacies. Therefore, payer-to-payer reconciliation procedures were developed by CMS and a workgroup of industry representatives...”



Part D Proposed Regulations

- “In the process of coordinating benefits between the correct Part D plan of record and another entity providing prescription drug coverage when that entity has incorrectly paid as primary payer on behalf of a Part D enrollee, the correct Part D plan must achieve timely reconciliation through working with the other entity that incorrectly paid as primary payer, unless CMS has established reconciliation processes for payment reconciliation, rather than requesting pharmacy claims reversal and reconciliation.”



NAIC 2005

Model Rule Major Changes

- Individual Plans
- High Deductible Health Plans
- Long-Term Care Insurance
- Birthday Rule
- Divorce Decrees
- Benefit Reserve



States Adopting 2005 Rule

- Alabama
- Indiana
- Nebraska
- New Hampshire
- North Dakota
- Oregon
- Washington



Individual Plans

- The 2005 Revision Permits Coordination Between Group Plans and Individual Policies
- Problems:
 - OBD Rules Do Not Work Well for Individual Policies
 - Conflict If Individual Policy Is Always Secondary



High Deductible Health Plans

- Definition of Allowable Expense Changed
- Deductibles of Coordinating HDHPs Not Allowable Expense



Long-Term Care Insurance

- Medical Component of LTC Subject to COB
- Impossible to Determine Amount Paid for Medical Component



Birthday Rule

- All States With COB Law or Regulation Have Now Adopted the Birthday Rule
- Birthday Rule Included a “Self-Destruct” Provision for Transition
- 2005 Model Eliminates Self-Destruct Provision



Divorce Decrees

- Now First Rule That Applies to Dependent Children
- Now Applies to Anyone, Not Just Parents
- Continuing Problem With Parents With Responsibility for Providing Health Benefits Who Disappear



Benefit Reserve

- Gone From Model Rule
- Most States Still Require Benefit Reserve



Summary

- COB Requires
 - Knowledge of the Rules
 - Attention to Detail



Garner Consulting

630 N. Rosemead Blvd., Suite 300

Pasadena, CA 91107

(626) 351-2300

(626) 371-0447 fax

Website: www.garnerconsulting.com

Email: john@garnerconsulting.com